



**MOUNT CLEMENS
COMMUNITY SCHOOLS**

Mount Clemens, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2006**

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COMMUNITY SCHOOLS**

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MOUNT CLEMENS COMMUNITY SCHOOLS

For the Year Ended June 30, 2006

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

October 20, 2006

Board of Education
Mount Clemens Community Schools
Mount Clemens, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Mount Clemens Community Schools (the "District")***, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Mount Clemens Community Schools***, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated October 20, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Mount Clemens Community School's*** basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Lohman".

MANAGEMENT'S DISCUSSION AND ANALYSIS

MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

As management of Mount Clemens Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

Financial Highlights

- The District continued to invest in its future by renovating and expanding its facilities and related equipment by expending \$5,668,379 in the 2001 Capital Projects Fund
- The government's net assets totaled \$653,898, or a decrease of \$1,733,396 due to the current economic conditions at the State level and a decrease in enrollment.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$20,936,406, a decrease of \$7,133,949 in comparison with the prior year. Almost 100%, or \$20,895,662, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,487,568 or 9%, of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2006.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and 2001 capital projects funds, each of which are considered to be a major fund. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 15-19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because

MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 20-21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-37 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 38-42 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$653,898 at the close of the most recent fiscal year.

A portion of the District's net assets (117%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

District's Net Assets

| | <u>2005-06</u> | <u>2004-05</u> |
|---|-------------------|---------------------|
| Current and other assets | \$ 25,176,785 | \$ 36,033,172 |
| Noncurrent assets, net | <u>65,271,707</u> | <u>60,685,217</u> |
| Total assets | <u>90,448,492</u> | <u>96,718,389</u> |
| Long-term liabilities outstanding | 82,206,075 | 82,503,986 |
| Other liabilities | <u>7,588,519</u> | <u>11,827,109</u> |
| Total liabilities | <u>89,794,594</u> | <u>94,331,095</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 765,466 | 299,687 |
| Restricted | 264,655 | 576,630 |
| Unrestricted | <u>(376,223)</u> | <u>1,510,977</u> |
| Total net assets | <u>\$ 653,898</u> | <u>\$ 2,387,294</u> |

An additional portion of the District's net assets (40%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net deficit* (-71% or \$(376,223)) is required to meet the government's ongoing obligations to its programs.

At the end of the current fiscal year, the District was able to report positive balances in two of three categories.

The government's net assets decreased by \$1,733,396 during the current fiscal year. This is compared to the decrease of \$359,894 in the prior year. Most of this decline over the year largely reflects the degree to which ongoing expenses exceeded ongoing revenues. This is mostly due to deteriorating economic conditions in the state and national markets along with a declining enrollment base, which caused a reduction in the District's state aid. This has been a consistent trend over that past few years.

MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

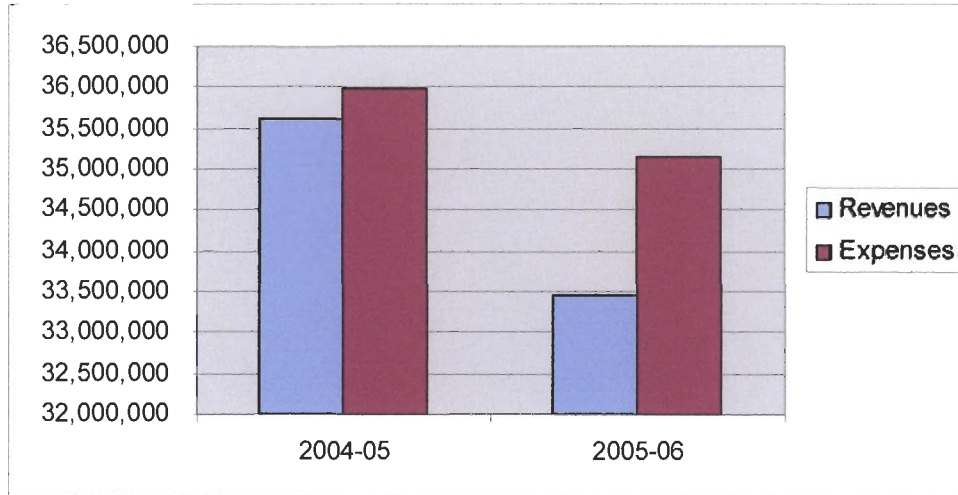
District's Changes in Net Assets

| | <u>2005-2006</u> | <u>2004-2005</u> |
|------------------------------------|-------------------|---------------------|
| Revenue: | | |
| Program revenue: | | |
| Charges for services | \$ 765,115 | \$ 676,602 |
| Operating grants and contributions | 8,149,608 | 9,058,989 |
| General revenue: | | |
| Property taxes | 8,413,487 | 8,561,603 |
| State school aid | 14,534,000 | 15,618,247 |
| Other | 1,552,804 | 1,707,943 |
| Total revenue | <u>33,415,014</u> | <u>35,623,384</u> |
| Expenses: | | |
| Instruction | 18,590,267 | 19,019,818 |
| Support services | 10,562,276 | 10,853,720 |
| Food service | 1,306,878 | 1,274,863 |
| Athletics | 329,101 | 336,190 |
| Community service | 398,057 | 421,414 |
| Interest on long-term debt | 3,961,831 | 4,077,273 |
| Total expenses | <u>35,148,410</u> | <u>35,983,278</u> |
| Increase (decrease) in net assets | (1,733,396) | (359,894) |
| Net assets, beginning of year | <u>2,387,294</u> | <u>2,747,188</u> |
| Net assets, end of year | <u>\$ 653,898</u> | <u>\$ 2,387,294</u> |

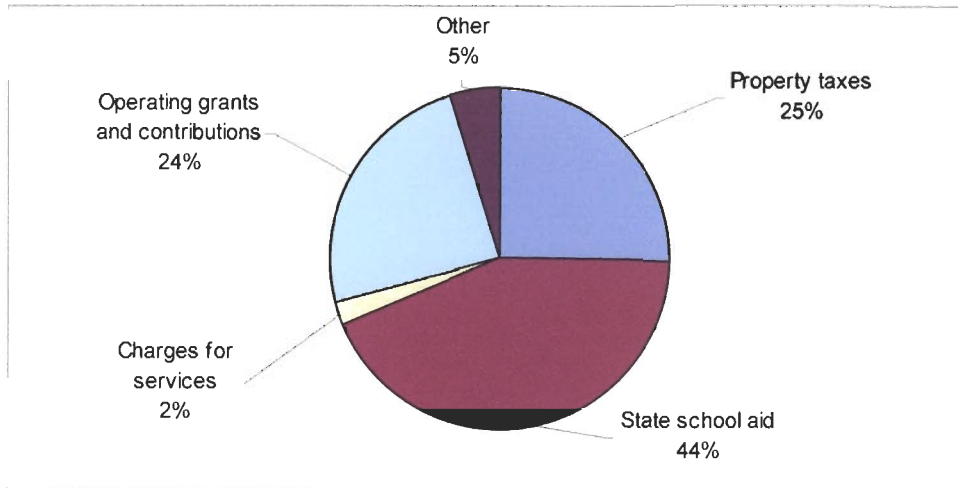
MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

Total Expenses vs. Total Revenues - Governmental Activities



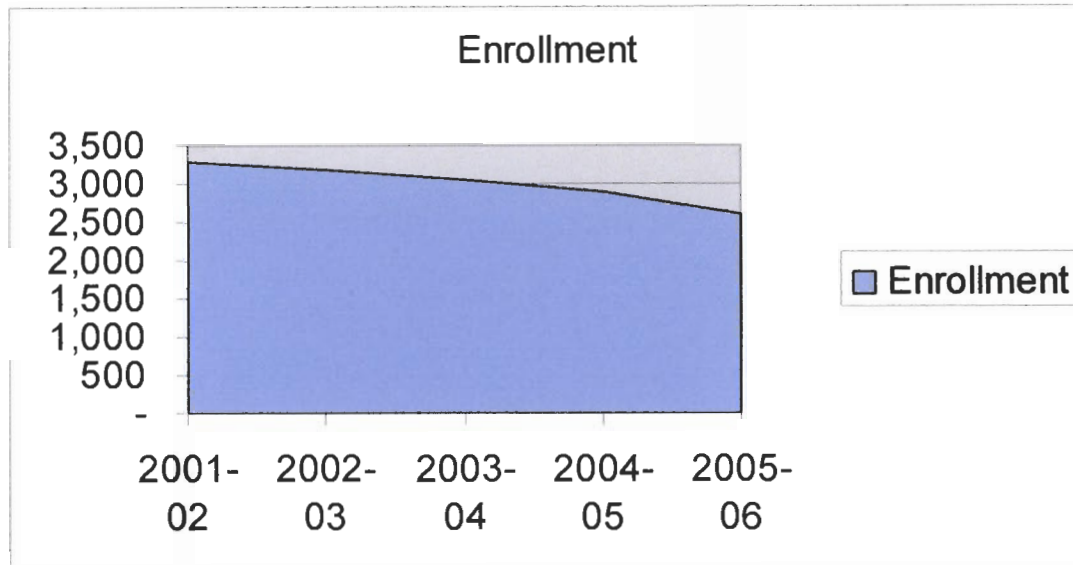
Revenues by Source - Governmental Activities



MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

Trend in Enrollment – Last Five Fiscal Years



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$20,936,406, a decrease of \$7,133,949 in comparison with the prior year. Approximately 100% of this total amount, \$20,895,662 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in prepaids.

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,487,568. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 9%, or 1 month, of total general fund expenditures.

The fund balance of the District's general fund decreased by \$2,197,271 during the current fiscal year. This is primarily attributable to a stagnating State economy and reductions in enrollment.

MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

The 2001 capital projects fund incurred \$5,668,379 of expenditures while in the process of completing the District's newest elementary schools, Seminole and M.L. King, Jr. Elementary, and providing capital improvements to many of the District's existing structures. These expenditures helped to bring the total fund balance down to \$18,060,539 which represents the unliquidated portion of the original bond proceeds.

General Fund Budgetary Highlights

Differences between the original and final amended budgeted revenues and expenditures amounted to a decrease of \$212,621 in revenues and an increase in expenditures of \$1,369,891. This was primarily due to adjustments in staffing due to enrollment declines. Once additional information was known, subsequent budget amendments recognized these adjustments. However, with the continued stagnation of the State's economy, reductions in the District's state aid and threats of even greater reductions in the future, the District pulled back on planned expenditures in an attempt to reduce the impact of current operations on the District's total fund balance.

Actual to final budget variances of \$2,931,926 for revenues and \$3,911,141 for expenditures were primarily due to a decrease in participation of federal programs.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2006, amounted to \$64,682,760 (net of accumulated depreciation), which is an increase over the prior year's investment of \$60,062,230. This investment in capital assets includes land, buildings, vehicles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 8%, due mainly to the construction work being completed in the District from the 2001 Capital Project Fund.

The major capital asset event during the current fiscal year was the following:

- Approximately \$5,455,904 in construction and building improvement projects, including the erection of Seminole, M.L.King, Jr. Elementaries and renovation of other existing facilities.

MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

District's Capital Assets (net of depreciation)

| | 2005-06 | 2004-05 |
|---------------------------|---------------|---------------|
| Land | \$ 680,575 | 680,575 |
| Construction in progress | 50,952,741 | 45,905,169 |
| Land improvements | 675,338 | 717,249 |
| Building and improvements | 11,046,494 | 11,285,979 |
| Furniture and equipment | 1,318,762 | 1,457,208 |
| Vehicles | 8,850 | 16,050 |
| Total | \$ 64,682,760 | \$ 60,062,230 |

Additional information on the District's capital assets can be found in the Notes to the Financial Statements section of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$73,183,045. In addition, there is \$7,623,105 of debt that is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

The District's total bonded debt decreased by \$506,762, or 1%, during the current fiscal year, due primarily to additional principle and interest borrowings from the State-sponsored School Bond Loan Program.

Additional information on the District's long-term debt can be found in the Notes to the Financial Statements section of this report.

Factors Bearing on the District's Future

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2006-07 fiscal year:

- The economic downswing in Michigan has caused the leveling off of the foundation allowance in recent years, which essentially means the District's largest revenue source has not kept pace with mandated and inflationary increases in expenditures for the coming year. The other factor affecting revenue will come from the District's enrollment, which will be affected by competition from choice and charter schools.
- The District will be negotiating contracts with all of the bargaining units representing the District's staff in the 2006-07 fiscal year.

MOUNT CLEMENS COMMUNITY SCHOOLS

Management's Discussion and Analysis

- Health insurance related benefits (i.e. medical, dental and vision) have seen significant increases (18.33% for 2005-06) over the past few years. Management does not anticipate a decline in these double-digit increases in the near future. With no full time staff contributing to the costs of these benefits, such increases severely threaten the District's financial position.
- The contribution rate for retirement services has been increased by the State of Michigan for the 2005-06 fiscal year from 14.87% to 16.34% of gross salaries. The 2006-07 contribution rate has been further increased. It is management's belief that future contribution rates will continue to increase 1-4% annually.
- The 2006-07 fiscal year will see the grand re-opening of the completely renovated Lincoln Early Childhood Center, Mount Clemens Middle School and Mount Clemens High School. Along with these openings and renovations may come additional costs to operate and maintain these facilities.
- Inflationary trends in the region compare favorably to national indices.

The above listed items encompass the major challenges for the 2006-07 fiscal year that will undoubtedly feature rising expenses with sluggish revenues. Such a combination will mean the District will be forced to consume a considerable amount of available fund equity for the coming year(s).

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent of Business Operations, 167 Cass Avenue, Mount Clemens, Michigan 48043.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2006

| ASSETS | Governmental Activities |
|---|----------------------------|
| Current assets | |
| Cash and cash equivalents | \$ 20,739,714 |
| Receivables | 4,396,327 |
| Prepays and other | 40,744 |
| Total current assets | 25,176,785 |
| Non-current assets | |
| Capital assets not being depreciated | 51,633,316 |
| Capital assets being depreciated | 29,485,350 |
| Accumulated depreciation | (16,435,906) |
| Net capital assets | 64,682,760 |
| Unamortized bond issuance costs | 588,947 |
| Total noncurrent assets | 65,271,707 |
| Total assets | 90,448,492 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | 1,421,315 |
| Accrued payroll and other liabilities | 1,898,590 |
| Unearned revenue | 920,474 |
| Current portion of long-term obligations | 3,348,140 |
| Total current liabilities | 7,588,519 |
| Noncurrent liabilities | |
| Noncurrent portion of long-term obligations | 82,206,075 |
| Total liabilities | 89,794,594 |
| Net assets | |
| Invested in capital assets, net of related debt | 765,466 |
| Restricted for | |
| Debt service | 264,655 |
| Unrestricted deficit | (376,223) |
| Total net assets | \$ 653,898 |

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

| Functions / Programs | Expenses | Program Revenues | | Net (Expense) Revenue |
|---|----------------------|-------------------------|--|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental activities: | | | | |
| Instruction | \$ 18,590,267 | \$ 96,034 | \$ 7,213,296 | \$ (11,280,937) |
| Support services | 10,562,276 | 82,528 | (6,364) | (10,486,112) |
| Community services | 398,057 | 218,064 | - | (179,993) |
| Food services | 1,306,878 | 350,182 | 942,676 | (14,020) |
| Athletics | 329,101 | 18,307 | - | (310,794) |
| Interest on long-term debt | 3,961,831 | - | - | (3,961,831) |
| Total governmental activities | \$ 35,148,410 | \$ 765,115 | \$ 8,149,608 | (26,233,687) |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | | 3,885,789 |
| Property taxes, levied for debt service | | | | 4,527,698 |
| Unrestricted state school aid | | | | 14,534,000 |
| Other revenues | | | | 343,742 |
| Unrestricted investment earnings | | | | 1,209,062 |
| Total general revenues | | | | 24,500,291 |
| Change in net assets | | | | (1,733,396) |
| Net assets, beginning of year | | | | 2,387,294 |
| Net assets, end of year | | | | \$ 653,898 |

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOLS

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2006

| | General Fund | 2001 Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Assets | | | | |
| Cash | \$ 2,149,653 | \$ 18,060,539 | \$ 529,522 | \$ 20,739,714 |
| Taxes receivable | - | - | 168,931 | 168,931 |
| Accounts receivable | 249,016 | - | - | 249,016 |
| Due from other governmental units | 3,978,380 | - | - | 3,978,380 |
| Inventories | - | - | 5,781 | 5,781 |
| Prepays | 34,963 | - | - | 34,963 |
| Total assets | \$ 6,412,012 | \$ 18,060,539 | \$ 704,234 | \$ 25,176,785 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 1,079,072 | \$ - | \$ 342,243 | \$ 1,421,315 |
| Salaries payable | 1,407,688 | - | 8,655 | 1,416,343 |
| Accrued expenses | 341,305 | - | - | 341,305 |
| Due to other governmental units | 140,942 | - | - | 140,942 |
| Deferred revenue | 920,474 | - | - | 920,474 |
| Total liabilities | 3,889,481 | - | 350,898 | 4,240,379 |
| Fund Balances | | | | |
| Reserved for inventories and prepaids | 34,963 | - | 5,781 | 40,744 |
| Unreserved, designated for capital projects | - | 18,060,539 | - | 18,060,539 |
| Unreserved, undesignated | 2,487,568 | - | - | 2,487,568 |
| Unreserved, undesignated, reported in nonmajor: | | | | |
| Debt service funds | - | - | 264,655 | 264,655 |
| Special revenue funds | - | - | 82,900 | 82,900 |
| Total fund balances | 2,522,531 | 18,060,539 | 353,336 | 20,936,406 |
| Total liabilities and fund balances | \$ 6,412,012 | \$ 18,060,539 | \$ 704,234 | \$ 25,176,785 |

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2006

| | | |
|---|-----------|-------------------|
| Fund balances - total governmental funds | \$ | 20,936,406 |
|---|-----------|-------------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|----------------------------------|--------------|
| Add: capital assets | 81,118,666 |
| Deduct: accumulated depreciation | (16,435,906) |

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds. In addition, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred on the statement of net assets and amortized.

| | |
|---|--------------|
| Deduct: bonds payable | (81,977,833) |
| Add: unamortized bond issuance costs | 588,947 |
| Deduct: accrued interest on bonds payable | (3,459,952) |
| Deduct: accrued insurance claims and judgements | (93,000) |
| Deduct: compensated absences | (23,430) |

| | | |
|--|-----------|----------------|
| Net assets of governmental activities | \$ | 653,898 |
|--|-----------|----------------|

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds

For the Year Ended June 30, 2006

| | General Fund | 2001 Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Local sources | \$ 6,087,383 | \$ 954,995 | \$ 4,902,058 | \$ 11,944,436 |
| State sources | 18,639,319 | - | 129,117 | 18,768,436 |
| Federal sources | 1,888,583 | - | 813,559 | 2,702,142 |
| Total revenues | 26,615,285 | 954,995 | 5,844,734 | 33,415,014 |
| Expenditures | | | | |
| Instruction | 17,549,132 | - | | 17,549,132 |
| Support service | 10,552,367 | - | - | 10,552,367 |
| Food service | - | - | 1,306,878 | 1,306,878 |
| Athletics | - | - | 329,101 | 329,101 |
| Community service | 398,057 | - | - | 398,057 |
| Debt service | | | | |
| Principal | - | - | 2,317,796 | 2,317,796 |
| Interest | - | - | 4,088,091 | 4,088,091 |
| Capital outlay and repairs | - | 5,668,379 | - | 5,668,379 |
| Total expenditures | 28,499,556 | 5,668,379 | 8,041,866 | 36,541,422 |
| Revenues over (under) expenditures | (1,884,271) | (4,713,384) | (2,197,132) | (3,126,408) |
| Other financing sources (uses) | | | | |
| Note/bond proceeds | - | - | 1,660,838 | 1,660,838 |
| Transfers in | - | - | 541,839 | 541,839 |
| Transfers out | (313,000) | - | (228,839) | (541,839) |
| Total other financing sources (uses) | (313,000) | - | 1,973,838 | 1,660,838 |
| Net change in fund balances | (2,197,271) | (4,713,384) | (223,294) | (7,133,949) |
| Fund balance, beginning of year | 4,719,802 | 22,773,923 | 576,630 | 28,070,355 |
| Fund balance, end of year | \$ 2,522,531 | \$ 18,060,539 | \$ 353,336 | \$ 20,936,406 |

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2006

| | | |
|--|----|-------------|
| Net change in fund balances - total governmental funds | \$ | (7,133,949) |
|--|----|-------------|

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|-------------------------------|-----------|
| Add - capital outlay | 5,455,709 |
| Deduct - depreciation expense | (835,179) |

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In addition, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized on the statement of activities.

| | |
|---|-------------|
| Add - principal payments on long-term liabilities | 2,317,796 |
| Deduct - proceeds received on bond issuance | (1,660,838) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

| | |
|---|---------|
| Add - decrease in accrued compensated absences | 3,803 |
| Add - amortization on bond costs and premiums | 17,831 |
| Add - decrease in accrued interest payable on bonds | 108,431 |
| Deduct - increase in insurance liability | (7,000) |

| | | |
|---|----|--------------------|
| Change in net assets of governmental activities | \$ | <u>(1,733,396)</u> |
|---|----|--------------------|

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2006

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|------------------------------------|------------------|--------------|--------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Local sources | | | | |
| Property taxes | \$ 4,301,613 | \$ 4,301,613 | \$ 3,885,789 | \$ (415,824) |
| Special education tax - MISD | 1,400,000 | 1,400,000 | 1,207,894 | (192,106) |
| Earnings on investments | 80,000 | 205,000 | 254,053 | 49,053 |
| Other local sources | 608,978 | 687,074 | 739,647 | 52,573 |
| State sources | | | | |
| Foundation allowance | 15,895,547 | 14,464,228 | 14,534,000 | 69,772 |
| Other state sources | 4,153,738 | 4,829,016 | 4,105,319 | (723,697) |
| Federal sources | 3,319,956 | 3,660,280 | 1,888,583 | (1,771,697) |
| Total revenues | 29,759,832 | 29,547,211 | 26,615,285 | (2,931,926) |
| Expenditures | | | | |
| Instruction | | | | |
| Basic programs | 13,838,000 | 13,267,795 | 12,066,640 | 1,201,155 |
| Added needs | 5,275,227 | 5,677,828 | 5,482,492 | 195,336 |
| Total instruction | 19,113,227 | 18,945,623 | 17,549,132 | 1,396,491 |
| Support services | | | | |
| Pupil | 1,995,120 | 2,520,182 | 2,310,398 | 209,784 |
| Instructional support | 1,207,667 | 1,201,214 | 985,456 | 215,758 |
| General administration | 713,213 | 744,240 | 638,603 | 105,637 |
| School administration | 1,685,831 | 1,818,145 | 1,735,303 | 82,842 |
| Business | 566,037 | 568,674 | 384,965 | 183,709 |
| Maintenance | 2,920,932 | 3,266,627 | 2,952,152 | 314,475 |
| Transportation | 923,312 | 1,005,457 | 924,137 | 81,320 |
| Central services | 618,160 | 684,964 | 621,353 | 63,611 |
| Indirect offset | - | 73,543 | - | 73,543 |
| Total support services | 10,630,272 | 11,883,046 | 10,552,367 | 1,330,679 |
| Community service | 1,297,307 | 1,582,028 | 398,057 | 1,183,971 |
| Total expenditures | 31,040,806 | 32,410,697 | 28,499,556 | 3,911,141 |
| Revenues over (under) expenditures | (1,280,974) | (2,863,486) | (1,884,271) | 979,215 |
| Other financing sources (uses) | | | | |
| Transfers out | (313,000) | (313,000) | (313,000) | - |
| Net change in fund balances | (1,593,974) | (3,176,486) | (2,197,271) | 979,215 |
| Fund balance, beginning of year | 4,719,802 | 4,719,802 | 4,719,802 | - |
| Fund balance, end of year | \$ 3,125,828 | \$ 1,543,316 | \$ 2,522,531 | \$ 979,215 |

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

| | <u>Private Purpose Trust</u> | <u>Agency Fund</u> |
|---|----------------------------------|------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 215,419 | \$ 61,135 |
| Investments | 115,498 | 17,000 |
| Accounts receivable | 500 | - |
| | <u>331,417</u> | <u>78,135</u> |
| Total assets | <u>331,417</u> | <u>\$ 78,135</u> |
| Liabilities | | |
| Due to student groups | - | \$ 78,135 |
| | <u>-</u> | <u>\$ 78,135</u> |
| Net Assets - reserved for scholarships | <u>\$ 331,417</u> | |

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

Statement of Changes in Net Fiduciary Assets

For the Year Ended June 30, 2006

| | <u>Private Purpose Trust</u> |
|---------------------------------|----------------------------------|
| Additions | |
| Private contributions | \$ 22,814 |
| Earnings on investments | <u>10,829</u> |
| Total additions | 33,643 |
| Deductions | |
| Scholarships awarded | <u>19,045</u> |
| Net change in net assets | 14,598 |
| Net assets - beginning of year | <u>316,819</u> |
| Net assets - end of year | <u>\$ 331,417</u> |

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Mount Clemens Community Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board's Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year ended June 30, 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary trust fund financial statements. Agency funds also use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for expenditure driven grants, which are considered available if collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2001 capital projects fund accounts for the construction, as well as the acquisition, of capital assets and the renovation of certain other District facilities. These projects are funded by a general obligation unlimited tax bond issue.

Additionally, the District reports the following fund types:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The District's special revenue funds include the food services and athletic funds. Any operating deficit generated by these activities is the responsibility of the general fund.

The debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

The fiduciary funds consist of assets held by the District in a trustee capacity or as an agent on behalf of others. The District has two fiduciary funds, which include the private-purpose trust and the student activities agency fund. The private-purpose trust includes contributions received by the District to be awarded in the form of scholarships. The student activities agency fund is used to account for transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities and Equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Statutory authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the Surplus Funds Investment Pool Act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy is equivalent to the above State of Michigan policy.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------------|--------------|
| Land improvements | 20-25 |
| Buildings | 50 |
| Furniture and equipment | 5-20 |
| Licensed vehicles | 8 |

5. Compensated absences

The liability for compensated absences reported in the district-wide statements consists of earned but unused accrued vacation. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, with amounts for both employees who are currently eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination.

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

6. Long-term obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received in debt issuances are reported as other financing sources and/or uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

B. Excess of Expenditures over Appropriations

The District did not have any expenditure budget overruns during the fiscal year at the legal budget control level.

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

| | <u>Deposits</u> | <u>Investment</u> | <u>Other</u> | <u>Total</u> |
|---------------------------------|--------------------|---------------------|---------------|---------------------|
| Statement of net assets: | | | | |
| Cash & cash equivalents | \$6,358,826 | \$14,380,288 | \$ 600 | \$20,739,714 |
| Fiduciary funds | | | | |
| Cash & cash equivalents | 276,554 | - | - | 276,554 |
| Investments | <u>17,000</u> | <u>115,498</u> | <u>-</u> | <u>132,498</u> |
| | <u>\$6,652,380</u> | <u>\$14,495,786</u> | <u>\$ 600</u> | <u>\$21,148,766</u> |

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments.

| <u>Investment</u> | <u>Maturities</u> | <u>Fair Value</u> | <u>Rating</u> |
|--|-------------------|---------------------|---------------|
| Michigan Liquid Asset Fund | N/A | \$14,380,288 | AAA |
| American Funds Investment Co. of America | N/A | <u>115,498</u> | Unrated |
| | | <u>\$14,495,786</u> | |

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end, as applicable.

Credit Risk. State law limits investments to specific investment types as identified in the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end, as applicable.

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$8,806,895 of the District's bank balance of \$9,107,065 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the District does not have, a policy for investment custodial credit risk. The District's investments of \$14,495,786 had a custodial credit risk exposure of \$14,495,786 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in note 1 of the summary of significant accounting policies. The District investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the District's investments are in the Michigan Liquid Assets Fund. All investments held at year-end are reported above.

B. Receivables

Receivables in the governmental activities are 91 percent due from other governments and 9 percent from other receivables.

C. Interfund Receivables, Payables and Transfers

There were no interfund balances as of June 30, 2006.

The composition of interfund transfers for the year ended June 30, 2006 is as follows:

| <u>Transfer Out:</u> | <u>Transfer In</u> | | | | <u>Total</u> |
|----------------------|--------------------|-----------------|------------------|---------------------|------------------|
| | <u>DS-1992</u> | <u>DS-2004</u> | <u>DS-2005</u> | <u>SR-Athletics</u> | |
| DS-2001 | \$ 152,364 | \$ 9,477 | \$ 66,988 | \$ - | \$228,839 |
| General Fund | <u>-</u> | <u>-</u> | <u>-</u> | <u>313,000</u> | <u>313,000</u> |
| Total | <u>\$ 152,364</u> | <u>\$ 9,477</u> | <u>\$ 66,998</u> | <u>\$ 313,000</u> | <u>\$541,839</u> |

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2006, the District transferred funds to subsidize the athletics program and to make interest payments on the 1992 refunding and 2005 bond.

D. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals and Adjustments</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|--------------------------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 680,575 | \$ - | \$ - | \$ 680,575 |
| Construction in progress | <u>45,905,169</u> | <u>5,047,767</u> | <u>(195)</u> | <u>50,952,741</u> |
| Subtotal capital assets not being depreciated | <u>46,585,744</u> | <u>5,047,767</u> | <u>(195)</u> | <u>51,633,316</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 838,227 | - | - | 838,227 |
| Buildings and improvements | 20,580,144 | 310,395 | - | 20,890,539 |
| Furniture and equipment | 7,606,342 | 97,742 | - | 7,704,084 |
| Vehicles | <u>52,500</u> | <u>-</u> | <u>-</u> | <u>52,500</u> |
| Subtotal capital assets being depreciated | <u>29,077,213</u> | <u>408,137</u> | <u>-</u> | <u>29,485,350</u> |
| Accumulated Depreciation: | | | | |
| Land improvements | 120,978 | 41,911 | - | 162,889 |
| Buildings and improvements | 9,294,165 | 549,880 | - | 9,844,045 |
| Furniture and equipment | 6,149,134 | 236,188 | - | 6,385,322 |
| Vehicles | <u>36,450</u> | <u>7,200</u> | <u>-</u> | <u>43,650</u> |
| Subtotal accumulated depreciation | <u>15,600,727</u> | <u>835,179</u> | <u>-</u> | <u>16,435,906</u> |
| Net capital assets being depreciated | <u>13,476,486</u> | <u>(427,042)</u> | <u>-</u> | <u>13,049,444</u> |
| Net governmental capital assets | <u>\$ 60,062,230</u> | <u>\$ 4,620,725</u> | <u>\$ (195)</u> | <u>\$ 64,682,760</u> |

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

| <u>Functions</u> | <u>Amount</u> |
|------------------|-------------------|
| Instruction | \$ 825,269 |
| Support | <u>9,910</u> |
| Total | <u>\$ 835,179</u> |

E. Operating Leases

The District leases equipment under noncancelable operating leases. Total costs for such leases were approximately \$110,575 for the current year. The future minimum lease payments for these leases are as follows:

| <u>Year Ending June 30:</u> | |
|---------------------------------|------------------|
| 2007 | \$ 89,228 |
| 2008 | 69,992 |
| 2009 | 69,992 |
| 2010 | <u>34,996</u> |
| Total | <u>\$264,208</u> |

F. Long-Term Debt

The following is a summary of the bond, compensated absence, and other long-term obligation related transactions of the District for the year ended June 30, 2006:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|---------------------|----------------------|---------------------------|--------------------------------|
| General obligation bonds | \$75,500,841 | \$ - | \$(2,317,796) | \$73,183,045 | \$ 2,354,792 |
| Unamortized premium | 2,702,604 | | (165,660) | 2,536,944 | 165,660 |
| Deferred loss on refunding | (1,479,050) | - | 113,789 | (1,365,261) | (113,787) |
| Accrued interest on capital appreciation bonds | 2,935,654 | - | (362,869) | 2,572,785 | 638,465 |
| State of MI school bond | 5,812,071 | 1,811,034 | - | 7,623,105 | - |
| Accrued interest | 782,925 | 887,167 | (782,925) | 887,167 | 210,010 |
| Self insurance liability | 86,000 | 371,706 | (364,706) | 93,000 | 93,000 |
| Compensated absences | <u>27,233</u> | <u>23,430</u> | <u>(27,233)</u> | <u>23,430</u> | <u>-</u> |
| | <u>\$ 86,368,278</u> | <u>\$ 3,100,337</u> | <u>\$(3,914,400)</u> | <u>\$85,554,215</u> | <u>\$ 3,348,140</u> |

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

The self insurance liability and compensated absences are generally liquidated by the general fund.

Bonds payable at June 30, 2006, are comprised of the following issues:

General Obligation Bonds:

| | |
|--|----------------------|
| 1992 School Building and Site Bonds - \$5,734,889 capital appreciation bonds, installments of \$459,792 to \$537,888 through May 1, 2007, interest at 6.55% to 6.75% | \$ 459,792 |
| 1993 Refunding Bonds - \$1,733,253 capital appreciation bonds, installments of \$296,958 to \$400,276 due May 1, 2013 through May 1, 2017, interest at 5.8% to 5.85% | 1,733,253 |
| 2001 School Building and Site Bonds - \$35,085,000 serial bonds due in annual installments of \$1,700,000 to \$2,700,000 through May 1, 2011, interest at 3.75% to 5.50%. \$35,075,000 term bonds due in annual installments of \$2,675,000 to \$2,700,000 from May 1, 2019 through May 1, 2031, interest at 5.00% | 45,075,000 |
| 2004 Refunding Bonds - \$5,045,000 serial bonds due in annual installments of \$950,000 to \$1,090,000 from May 1, 2008 through May 1, 2012, interest at 2.50% to 4.00%. \$3,000,000 serial bonds due in annual installments of \$1,000,000 from May 1, 2018 through May 1, 2020, interest at 3.90% to 4.00%. | 8,045,000 |
| 2005 Unlimited Tax General Obligation Refunding Bonds - \$17,915,000 serial bonds due in annual installments of \$45,000 to \$2,660,000 from May 1, 2006 through May 1, 2018, interest at 3.00% to 5.00%. | <u>17,870,000</u> |
| | <u>\$ 73,183,045</u> |

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

| <u>Fiscal Year</u> | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total</u> |
|------------------------|--------------------------|-------------------------|-----------------------|
| 2007 | \$ 2,354,792 | \$ 4,062,939 | \$ 6,417,731 |
| 2008 | 2,930,000 | 3,252,006 | 6,182,006 |
| 2009 | 3,030,000 | 3,149,331 | 6,179,331 |
| 2010 | 3,140,000 | 3,040,481 | 6,180,481 |
| 2011 | 3,255,000 | 2,925,125 | 6,180,125 |
| 2012-2016 | 14,781,294 | 16,023,306 | 30,804,600 |
| 2017-2021 | 16,691,959 | 9,991,292 | 26,683,251 |
| 2022-2026 | 13,500,000 | 5,400,000 | 18,900,000 |
| 2027-2031 | <u>13,500,000</u> | <u>2,025,000</u> | <u>15,525,000</u> |
| Total | <u>\$ 73,183,045</u> | <u>\$ 49,869,480</u> | <u>\$ 123,052,525</u> |

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Borrowings by the School District from the School Bond Loan Fund increased \$1,811,034, including \$150,196 of interest added to the corpus of the debt, totaling \$7,623,105 and accrued interest, not yet added to the corpus of the debt totaled \$210,010 for the year ended June 30, 2006.

Advance and Current Refundings

The District has issued refunding bonds in previous years to purchase U.S. Government securities that were placed in irrevocable trust for the purpose of generating resources for all future debt service payments on \$17,625,000 of refunded debt. As a result, the refunded bonds are considered to be defeased. On June 30, 2006, total defeased debt of \$22,622,371 for the District remained outstanding.

H. Subsequent Events

On September 6, 2006, a settlement in the amount of \$132,500 was awarded to a construction contractor to resolve a dispute with the District.

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

G. Commitments and Contingencies

Food Service Contracts – The District has a contract for management of its food service operations, renewable annually. The total contract cost for the year ended June 30, 2006 was approximately \$550,000. The contract includes a minimum administrative fee of approximately \$20,000 and a management fee of approximately \$15,000 per year.

Pupil Transportation – The District has contracted for pupil transportation services through the year ending June 30, 2008. The base contract price is approximately \$725,000 per year and provides for annual increases of approximately 3.0%. The total contract cost for pupil transportation services for the year ended June 30, 2006 was approximately \$925,000.

Federal and State Grants - Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

Environmental Liabilities - As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2006.

Construction Contract Commitments - The District is obligated for construction contracts relating to building projects in the amount of \$4.5 million at June 30, 2006. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the financial statements.

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for torts, errors, and omissions claims; the District is self insured for non-teacher healthcare, dental, and vision claims. The District participates in the Middle Cities Risk Management Trust (risk pool) for claims relating to property and casualty, the Middle Cities Workers Compensation Fund for workers' compensation, and M.E.S.S.A. for

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

teacher's health care. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The District estimates the liability for non-teacher health, dental, and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not been reported. These estimates are recorded in the district-wide statements.

Changes in the balances of claims liabilities during the past three years are as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|-----------------------------------|------------------|------------------|------------------|
| Accrued claims, beginning of year | \$ 86,000 | \$ 75,000 | \$ 130,000 |
| Incurred claims | 371,706 | 353,547 | 244,949 |
| Claim payments | <u>(364,706)</u> | <u>(342,547)</u> | <u>(299,949)</u> |
| Accrued claims, end of year | <u>\$ 93,000</u> | <u>\$ 86,000</u> | <u>\$ 75,000</u> |

B. Property Taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the City of Mount Clemens and Clinton Township on July 1, of each fiscal year. All levies become delinquent on February 14. The Delinquent Tax Revolving Funds of Macomb County advance delinquent real taxes to the District.

C. Defined Benefit Pension Plan

Plan Description

The Mount Clemens Community Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Mount Clemens Community Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the Mount Clemens Community Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2006, 2005 and 2004 were \$2,341,000 \$2,468,000, and \$2,287,000, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance included as part of the District's total monthly contribution to the pension plan discussed above.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

MOUNT CLEMENS COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

D. Bonded Construction Costs

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

SUPPLEMENTARY INFORMATION

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

MOUNT CLEMENS COMMUNITY SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2006

| | Special Revenue | | Debt Service | |
|--|--------------------|------------------|------------------|-------------------|
| | Food Services | Athletics | 1992 Issue | 1993 Refunding |
| ASSETS | | | | |
| Assets | | | | |
| Cash and investments | \$ 8,619 | \$ 83,296 | \$ 13,107 | \$ 6,755 |
| Accounts receivable | 38,399 | - | 54,291 | - |
| Inventories | 5,781 | - | - | - |
| Total assets | \$ 52,799 | \$ 83,296 | \$ 67,398 | \$ 6,755 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 38,759 | \$ - | \$ 67,398 | \$ - |
| Salaries payable | 54 | 8,601 | - | - |
| Total liabilities | 38,813 | 8,601 | 67,398 | - |
| Fund balances | | | | |
| Reserved for inventories | 5,781 | - | - | - |
| Unreserved and undesignated | 8,205 | 74,695 | - | 6,755 |
| Total fund balances | 13,986 | 74,695 | - | 6,755 |
| Total liabilities and fund balances | \$ 52,799 | \$ 83,296 | \$ 67,398 | \$ 6,755 |

The accompanying notes are an integral part of these financial statements.

| <u>2001 Issue</u> | <u>Debt Service</u> | | <u>Total Governmental Funds</u> |
|-----------------------|---------------------------|---------------------------|---|
| | <u>2004 Refunding</u> | <u>2005 Refunding</u> | |
| \$ 348,360 | \$ 10,557 | \$ 58,828 | \$ 529,522 |
| 68,273 | 7,968 | - | 168,931 |
| - | - | - | 5,781 |
| <u>\$ 416,633</u> | <u>\$ 18,525</u> | <u>\$ 58,828</u> | <u>\$ 704,234</u> |
| | | | |
| \$ 158,733 | \$ 18,525 | \$ 58,828 | \$ 342,243 |
| - | - | - | 8,655 |
| <u>158,733</u> | <u>18,525</u> | <u>58,828</u> | <u>350,898</u> |
| | | | |
| - | - | - | 5,781 |
| 257,900 | - | - | 347,555 |
| <u>257,900</u> | <u>-</u> | <u>-</u> | <u>353,336</u> |
| <u>\$ 416,633</u> | <u>\$ 18,525</u> | <u>\$ 58,828</u> | <u>\$ 704,234</u> |

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balance Nonmajor Governmental Funds

For the Year Ended June 30, 2006

| | Special Revenue | | Debt Service | |
|--------------------------------------|--------------------|------------------|------------------|-------------------|
| | Food Services | Athletics | 1992 Issue | 1993 Refunding |
| Revenues | | | | |
| Local sources | | | | |
| Property taxes | \$ - | \$ - | \$ 1,030,607 | \$ 6,520 |
| Food sales | 350,182 | - | - | - |
| Investment earnings | 5 | - | - | 9 |
| Other local sources | - | 18,307 | - | - |
| State sources | 129,117 | - | - | - |
| Federal sources | 813,559 | - | - | - |
| Total revenues | 1,292,863 | 18,307 | 1,030,607 | 6,529 |
| Expenditures | | | | |
| Food services | 1,306,878 | - | - | - |
| Athletics | - | 329,101 | - | - |
| Debt service | | | | |
| Principal | - | - | 497,796 | - |
| Interest and other | - | - | 702,655 | - |
| Total expenditures | 1,306,878 | 329,101 | 1,200,451 | - |
| Revenue over (under) expenditures | (14,015) | (310,794) | (169,844) | 6,529 |
| Other financing sources | | | | |
| Bond proceeds | - | - | - | - |
| Transfers in | - | 313,000 | 152,364 | - |
| Transfers out | - | - | - | - |
| Total other financing sources | - | 313,000 | 152,364 | - |
| Net change in fund balances | (14,015) | 2,206 | (17,480) | 6,529 |
| Fund balance, beginning of year | 28,001 | 72,489 | 17,480 | 226 |
| Fund balance, end of year | \$ 13,986 | \$ 74,695 | \$ - | \$ 6,755 |

The accompanying notes are an integral part of these financial statements.

| 2001 | Debt Service | | Total Governmental Funds |
|-------------------|---------------------|------------------|---------------------------------|
| | 2004 | 2005 | |
| Issue | Refunding | Refunding | |
| \$ 2,362,841 | \$ 274,948 | \$ 852,782 | \$ 4,527,698 |
| - | - | - | 350,182 |
| - | - | - | 14 |
| - | - | 5,857 | 24,164 |
| - | - | - | 129,117 |
| - | - | - | 813,559 |
| 2,362,841 | 274,948 | 858,639 | 5,844,734 |
| - | - | - | 1,306,878 |
| - | - | - | 329,101 |
| 1,775,000 | - | 45,000 | 2,317,796 |
| 2,220,374 | 284,425 | 880,637 | 4,088,091 |
| 3,995,374 | 284,425 | 925,637 | 8,041,866 |
| (1,632,533) | (9,477) | (66,998) | (2,197,132) |
| 1,660,838 | - | - | 1,660,838 |
| - | 9,477 | 66,998 | 541,839 |
| (228,839) | - | - | (228,839) |
| 1,431,999 | 9,477 | 66,998 | 1,973,838 |
| (200,534) | - | - | (223,294) |
| 458,434 | - | - | 576,630 |
| \$ 257,900 | \$ - | \$ - | \$ 353,336 |

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS COMMUNITY SCHOOLS

Schedule of Bonded Indebtedness

June 30, 2006

| June 30 | Principal Due | | | | | Total |
|----------------|-------------------|---------------------|-------------------------|-------------------------|-------------------------|----------------------|
| | 1992 Issue | 1993 Refunding | 2001 Issue | 2004 Refunding | 2005 Refunding | |
| 2007 | \$ 459,792 | \$ - | \$ 1,850,000 | \$ - | \$ 45,000 | \$ 2,354,792 |
| 2008 | - | - | 1,925,000 | 950,000 | 55,000 | 2,930,000 |
| 2009 | - | - | 2,000,000 | 970,000 | 60,000 | 3,030,000 |
| 2010 | - | - | 2,075,000 | 1,000,000 | 65,000 | 3,140,000 |
| 2011 | - | - | 2,150,000 | 1,035,000 | 70,000 | 3,255,000 |
| 2012 | - | - | - | 1,090,000 | 2,295,000 | 3,385,000 |
| 2013 | - | 400,276 | - | - | 2,310,000 | 2,710,276 |
| 2014 | - | 376,503 | - | - | 2,430,000 | 2,806,503 |
| 2015 | - | 348,981 | - | - | 2,560,000 | 2,908,981 |
| 2016 | - | 310,535 | - | - | 2,660,000 | 2,970,535 |
| 2017 | - | 296,958 | - | - | 2,660,000 | 2,956,958 |
| 2018 | - | - | - | 1,000,000 | 2,660,000 | 3,660,000 |
| 2019 | - | - | 2,675,000 | 1,000,000 | - | 3,675,000 |
| 2020 | - | - | 2,700,000 | 1,000,000 | - | 3,700,000 |
| 2021 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2022 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2023 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2024 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2025 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2026 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2027 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2028 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2029 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2030 | - | - | 2,700,000 | - | - | 2,700,000 |
| 2031 | - | - | 2,700,000 | - | - | 2,700,000 |
| | \$ 459,792 | \$ 1,733,253 | \$ 45,075,000 | \$ 8,045,000 | \$ 17,870,000 | \$ 73,183,045 |
| Principal due | May 1 | May 1 | May 1 | May 1 | May 1 | |
| Interest due | May 1 | May 1 | May 1 and November 1 | May 1 and November 1 | May 1 and November 1 | |
| Interest rate | 6.55% to 6.75% | 5.80% to 5.85% | 3.75% to 5.50% | 2.50% to 4.00% | 3.0% to 5.00% | |
| Original issue | \$ 5,734,889 | \$ 5,108,253 | \$ 70,160,000 | \$ 8,045,000 | \$ 17,915,000 | |

The accompanying notes are an integral part of these financial statements.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 20, 2006

The Board of Education
Mount Clemens Community Schools

In planning and performing our audit of the financial statements of *Mount Clemens Community Schools (the "District")* for the year ended June 30, 2006, we considered the District's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 20, 2006, on the financial statements of *Mount Clemens Community Schools*.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, or perform any additional studies of this matter, or to assist you in implementing the recommendations.

MOUNT CLEMENS COMMUNITY SCHOOLS

COMMENTS AND RECOMMENDATIONS

1) Reconciliation of Selected Accounts and Financial Activity

During our audit it came to our attention that the general ledger control accounts over capital assets and long-term debt did not agree with the underlying subledgers and roll forward schedules.

Although the District's capital asset subledger and long-term debt roll forwards appear to be accurate, and control accounts for changes in net assets are not required by the Michigan Department of Education, using control accounts in the general ledger is a good internal control over the completeness and accuracy over the financial reporting process.

Recommendation:

We would recommend that the District establish and/or reconcile general ledger control accounts over capital assets and long-term debt.